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STATE GOVERNMENT SURVEY COMMITTEE

TASK FORCE REPORT

"ACCOUNTING"

LETTERS DATED NOVEMBER 5, 1952
to the
CHAIRMAN
of the
STATE GOVERNMENT SURVEY COMMITTEE

* * * * *

COMMITTEE ON COMMONWEALTH GOVERNMENT ACCOUNTING
of the
PENNSYLVANIA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

123 South Broad Street

Philadelphia 9

Mr. Francis J. Chesterman, Chairman
State Government Survey Committee
Harrisburg, Pennsylvania

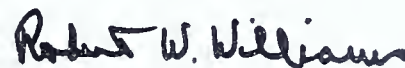
November 5, 1952

Dear Mr. Chesterman:

Pursuant to our conversations with Mr. Ralph Kelly, Mr. John N. O'Neil and yourself, herewith is a letter to you signed by the eight members of the committee on commonwealth government accounting of the Pennsylvania Institute of Certified Public Accountants. With this letter are subordinate letters from three of the firms who participated in surveys of certain State departments in 1949-50. We hope that these letters will assist in attaining the important objectives of your committee.

Our recommendations are directed chiefly to the basic problem, the solution of which will require new legislation. The three subordinate letters indicate certain improved methods which might be adopted without new legislation. However, we are not optimistic that substantial improvements and economies will be practicable without solution of the basic problem.

Yours very truly,



Robert W. Williams, Chairman
Committee on commonwealth
government accounting of
the Pennsylvania Institute
of Certified Public Accountants

COMMITTEE ON COMMONWEALTH GOVERNMENT ACCOUNTING
PENNSYLVANIA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

November 5, 1952

Mr. Francis J. Chesterman, Chairman
State Government Survey Committee
Harrisburg, Pa.

Dear Sir:

You have asked us to submit comments and suggestions looking to improvement in the operation of the Commonwealth and its departments in the field of accounting, for the purpose of accomplishing efficiency and economy. We believe that our committee is in a position to do so as a result of surveys in 1949-1950 by members of the Pennsylvania Institute of Certified Public Accountants which were reported to the Joint State Government Commission in 1950.

Eighteen state departments and activities were covered by these surveys and reports. Subsequent to their completion our committee cooperated with representatives of the Joint State Government Commission in the preparation of its report "Commonwealth Accounting", published in January 1951 and made available to the members of the 1951 General Assembly. Legislation to implement the recommendations in that report was introduced in the 1951 session of the Senate but was referred back to committee.

The above-mentioned surveys and reports, which were made gratis by members of our Institute, were not intended to, and did not, contain detailed recommendations for changes in accounting procedures, nor do they furnish a basis of estimates of savings that might ensue if the existing conditions were changed by the adoption of sound modern methods of governmental accounting. To illustrate the nature and extent of these surveys, there are attached hereto three letters prepared this year by the accounting firms who in 1949 made surveys respectively of

the Department of Auditor General, the Department of Revenue and the Treasury Department. We have no reason to believe that any substantial changes have been introduced into the accounting operations of the Commonwealth or its departments since 1949-50. These letters contain some general suggestions for operating improvements which might be accomplished without new legislation.

As above mentioned, the surveys in 1949-50 by members of our Institute culminated in the report of the Joint State Government Commission. We cannot too strongly emphasize the value of that report and the recommendations therein. Our comments on the findings and recommendations in that report can be summarized as follows:

We are aware of vital difficulties confronting the administrative and legislative branches of the Commonwealth government, as well as the citizens and taxpayers, resulting from the present lack of understandable and reliable financial data on the Commonwealth's financial affairs and from certain inadequacies and conflicts inherent in the present administrative and fiscal codes with respect to the fiscal administration of the Commonwealth.

We find that accounting records are kept in each department and that substantially duplicating records are kept in three or four other offices of the Commonwealth; i.e., Revenue, Treasury, Auditor General and the Budget Secretary. In addition to this unnecessary duplication, there is extensive lack of such uniformity as is desirable and necessary if accounting records are to be informative for administrative purposes. The basic accounting records deal only with appropriations and with cash receipts and disbursements. Methods are not established for the coordinated assembly of information at any date

regarding current assets, other than cash, e.g. receivables, supply inventories and investments, or regarding liabilities incurred but unpaid including the Commonwealth's funded debt.

We are unable to find a comprehensive statement of the Commonwealth's financial position at the end of any fiscal period or of the transactions during any period. We believe that such statements can not be prepared under existing conditions without great effort and the elapse of so much time as to nullify their usefulness.

The budgeting and control of expenditures is complicated by use of the biennium rather than an annual period, and by the absence, so far as we can ascertain, of comprehensive review of unencumbered appropriations at the end of a biennium. There have been unsettled arguments as to the existence of a budget surplus or deficit. Under such conditions sound financial planning is most difficult if not impossible. The Commonwealth is exhibiting conspicuous failure to follow the governmental financial and accounting procedures which are receiving increasing acceptance in other states to cope with the present volume and complexity of governmental operations.

The staff of the Joint State Government Commission has made a study of administrative codes of each of the forty-eight states. We are informed that the first four states in order of size of 1948 budgeted expenditures (New York, California, Michigan, and Illinois) have provided for a Comptroller General or officer of similar title. Pennsylvania, the fifth state in order of size of 1948 budget expenditures, has yet to follow this example. Action to create a Central Accounting Office under a Chief Accounting Officer would not be an innovation but would be

following the concepts of modern administration in accordance with the practices already existing in the four larger states and in numerous other states smaller in budget expenditures.

The creation and operation of modern and effective accounting for the Commonwealth in all its ramified financial activities is a task of tremendous scope. It is, however, possible of achievement if the statutory authority is established and if qualified personnel are made available.

We therefore recommend:

(A) The establishment by statute of a Central Accounting Office under the direction of a Chief Accounting Officer to be clothed with authority to: (1) Promulgate classifications and methods for the recording, preparation and presentation of accounting data throughout the Commonwealth's fiscal activities. (2) Require the use of the accounting classifications and methods so established. (3) Keep such detailed and summary records as are necessary and desirable to supply all persons in the administrative and legislative branches, as well as the public, with financial information necessary to decisions based on such information.


(B) Separation of the pre-auditing and post-auditing functions, with responsibility for pre-auditing on the Accountant General and consequent elimination of the Auditor General from involvement in the accounting which he subsequently post-audits.


The objectives attainable by the creation and functioning of the Central Accounting Office and by the freeing of the Auditor General from his present pre-audit functions will be: (1) Provision to each operating unit of current financial information for its own guidance and for informing others as to its operation and financial condition.


- (2) Provision to the office of the Budget Secretary of all required historical data for the projection of future budgets as well as the means of measuring actual results against past and current budgets.
- (3) Provision to the Governor of financial data essential as a modern tool of fiscal administration. (4) Provision to the General Assembly of the same data for its guidance and use in the levying of taxes, the raising of other revenues and funds, and the making of appropriations for expenditures. (5) Placement of the Auditor General in an independent position where he can function as an impartial critic of financial procedures, personnel and practices. (6) Provision of intelligible reports to the citizens of the Commonwealth upon whom must fall the impact of the actions of the General Assembly.

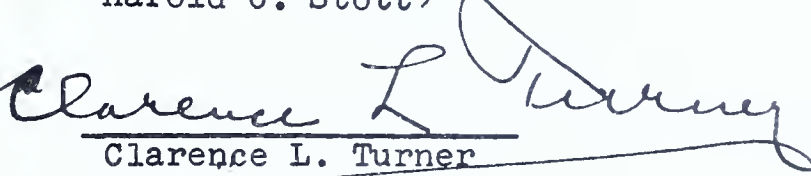
In conclusion: We are satisfied that the accounting organization which has evolved over the years and is still used cannot be deemed adequate for the measurement, control and reporting of the Commonwealth's intricate and complex activities at the present time when the biennial budget exceeds \$1 billion. The increased financial responsibilities of the Commonwealth call for modern integrated accounting methods and the information made available thereby.


The Committee on Commonwealth Government Accounting

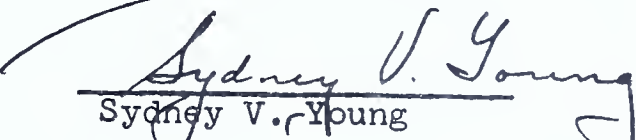

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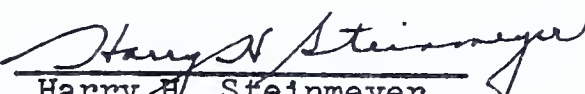

Harold C. Stott


Thomas M. O'Neill


Clarence L. Turner


Samuel W. Price


Sydney V. Young


Harry W. Steinmeyer


Robert W. Williams, Chairman

November 5, 1952

Mr. Francis J. Chesterman, Chairman
State Government Survey Committee
Harrisburg, Pa.

Dear Sir:

Accounting Organization of the Commonwealth

In this letter and its appendix we summarize the more important comments in our report dated August 30, 1949 on the survey which we made in 1949 for the Joint State Government Commission. That survey was made primarily in the Department of the Auditor General because that department's activities are related to most, if not all, of the fiscal and accounting functions of the Commonwealth.

It is necessary to differentiate between (a) what we hereafter call a modern accounting system and (b) centralized or mechanized methods for handling details within the framework of the existing fiscal organization. The word "mechanized" is here used to include record-keeping methods, by machine or manually, which reduce the handling of paper work while retaining all necessary guarantees of accuracy. Discussion of the present situation and of a modern accounting system is contained in this letter. Suggestions regarding centralized or mechanized methods which might be adopted without new legislation are contained in the appendix.

The present situation and its defects

Under the present Fiscal Code, the Governor has the power and duty "to prescribe and require the installation of a uniform system or systems of bookkeeping, accounting, and reporting . . ." This power must be exercised in consultation with the Auditor General, another elected official. Although this provision of the Code seems to contemplate centralized control of the accounting function, little or no development has occurred in this direction. Accounting work is largely duplicated by many departments. Record keeping and reporting methods, the classification of costs by function or activity, and any existing attempts at departmental internal control through accounting have been left to the chief accountants of the several departments.

Generally speaking, the accounting activity on the receipts side begins when funds come into the possession of the Department of Revenue or its agents. On the disbursements side it begins when suppliers or contractors' bills are presented for payment and the necessary requisitions are drawn. This principle applied to the accounting for revenue receipts seems adequate for the most part, but it is not an adequate basis for expenditure accounting. Funds of the Commonwealth may, and they should, be deemed to have been expended when an irrevocable financial commitment has been made rather than when (frequently much later) a requisition for payment is drawn.

Under the Code the Governor could reasonably promulgate a system involving recognition of commitments as well as disbursements, and he could require the departments to maintain the necessary accounting records. He could also require the departments to classify their costs

according to their various activities instead of only according to the objects of expenditure. In this way he could obtain significant reports of operating costs from the several secretaries. Moreover the Governor could require each secretary to furnish an accounting for the noncash resources at his disposal at any date, in addition to the accounting now made only for cash resources.

But could the Governor administer such a system? The design and installation of a modern accounting system calls for the training, experience and balanced judgment of an administrative accountant. The day-to-day administration of such a system would likewise call for similar qualifications.

The cash receipts and disbursements record-keeping and auditing now maintained in the Commonwealth has so developed as to render it relatively independent of accounting skill, although this comment does not imply that there are not excellent employees in the various financial offices. However the present system is replete with duplications, repetition and multiple independent double-checking devices. This might be described as a shotgun approach. It provides many jobs and, to a degree, reduces the risk of substantial error from exposure of the work to unskilled office workers under unskilled supervisors.

The Department of Revenue is charged with responsibility for collecting all taxes, fines, fees, licenses and other cash receipts of the Commonwealth. The Fiscal Code makes it possible for any employee in any department to act as agent for the Department of Revenue in the making of collections. The Code requires as to the acts of such agents, that the Secretary of Revenue ". . . shall be responsible . . . to the same extent to which he is responsible for the acts of employees of his own department."

Since the Secretary of Revenue has no administrative authority over the other departments, he cannot accept genuine responsibility for the acts of their employees. By the same token he cannot be held genuinely accountable for the collections which they may make. The real responsibility and accountability of the Department of Revenue begin when collected funds come into the possession of its own employees.

Another instance of overlapping responsibilities exists as between the Department of Revenue and the Bureau of Corporation Taxes, a part of the Auditor General's Department. No corporate tax assessment proposed by the Department of Revenue has official standing until the Bureau has approved and accepted it. Thus, as a practical matter, both the Secretary of Revenue and the Auditor General are responsible for tax assessment without clear definition of responsibility. In auditing the settlements proposed by the Department of Revenue the Auditor General's officials exercise their judgment as tax assessors, not as auditors, and the audit function is diluted by the mixture of responsibilities. It seems that much advantage could be gained from the concentration of responsibility for all of the tax assessment and settlement work in the Department of Revenue, subject as are all departments, to the critical post-audit by the Auditor General.

Individual accounts with the Commonwealth's corporate taxpayers are kept by both the Department of Revenue and the Bureau of Corporation Taxes. The circumstances of day-to-day operation have produced a condition in which the official records (Revenue) are always from three to six months behind, and the unofficial records (Bureau of Corporation Taxes) are always up to date (the words "up to date" are used here in a

relative sense). As a result, we understand, officials of Revenue make frequent reference to the unofficial records in the conduct of their work, and they have little if any use for the official records. It goes without saying that this condition should be considered intolerable.

Other responsibility overlaps appear from the fact that duplicating records of cash collections or of appropriations and disbursements are kept in as many as five separate places: the respective operating department, Revenue, Treasury, Auditor General, and the Budget Bureau. Each expenditure is audited before payment (preaudited) by the department requesting payment and by the Department of Auditor General. The Auditor General also post-audits all accounts of the Commonwealth. His preaudit function makes him a party to the accounting which he subsequently post-audits. It is a primary principle that no one should audit his own work, which is substantially what the Auditor General does by being a party to the disbursement accounting which he must later post-audit.

These numerous overlaps of responsibility are obviously costly and raise doubt that any official could be held accountable in any particular area of the Commonwealth's financial affairs.

A modern accounting system - Its advantages and obstacles
to its installation and operation

The need for a modern accounting system--that is, the need for more instructive and timely financial information--is a need of management people who know how to use such information. Such people can utilize a modern accounting system to good advantage and they can be instrumental in accomplishing economies through the cost controls which it is capable of producing.

Preparation of an organization framework for a modernized approach to accounting may call for extensive revisions in the Fiscal Code and in the Administrative Code. It may also call for the re-definition of some of the principal financial responsibilities of present government officers.

As a first step consideration should be given to creating the position of Controller, or Accountant General, for the Commonwealth. Many professional accountants believe that the establishment of such an office on a proper basis is condition precedent to any large-scale undertaking for governmental accounting modernization. They believe that the Commonwealth is a single entity and that the accounting for its financial affairs should be treated as one integrated undertaking. Also they believe that administration of the Commonwealth is in large measure a financial problem and consequently the accounting function should be fully recognized at the top management level.

The Accountant General would be charged with the accounting responsibilities now resting with the Governor under the Fiscal Code. To provide continuity in the basic financial and accounting policies, and to provide an atmosphere which would induce a qualified man to accept the assignment, the position should be well paid, and, so far as feasible, nonpolitical.

If the Commonwealth were to place its top accounting responsibilities in the hands of an Accountant General competent to improve the quality, quantity, and the timeliness of the information available to its officials, it could reasonably anticipate that he would soon

advocate effective cost control. Capable accountants and sound accounting systems are not tolerant of wasteful practices or of unnecessary system complications.

A modernized accounting system would mechanize the flow of data through a minimum of handling. It would produce more of the Commonwealth's accounting records as by-products of the preparation of a single record, so that supplementary and duplicating records could be abolished. It would furnish certain centralized record-keeping services and thereby speed up the production of accounting data for all departments at relatively low cost while eliminating the corresponding record-keeping activity in each operating department. It would make possible the elimination of many duplicate files and with them the need for maintaining filing space and staffs of filing clerks. A modernized system would make use of unskilled office workers, as does the present system, but their number would be reduced. The modernized system, however, could not get along without skilled top supervisors.

Consideration of the creation of an Accountant General will require consideration of the fact that two of the top financial officials of the Commonwealth, the Auditor General and the Treasurer, are elected officers. Their first loyalty runs directly to the people of the Commonwealth, and not to the Chief Executive. This condition is capable of impairing the ability of an Accountant General to perform his function.

Under present existing conditions, the proposal that accounting methods be extensively modernized might involve serious hazards. The Commonwealth's employees at virtually every level must accept the uncertainties of employment which ordinarily accompany political office-holding. They could be swept out of office by a change in administration. Consequently there is little inducement for capable and experienced accountants to enter such a service, although they might be willing to undertake the pioneering work of systems survey and design under circumstances giving promise of successful accomplishment. This would require a sympathetic Chief Executive, the necessary legislative backing and reasonable assurance that operation of the system would not be given over into the hands of untrained supervisors. The failure in operation of a soundly devised system might, and probably would, produce a condition worse than that which such a system seeks to overcome.

Yours very truly,


Price Waterhouse & Co.

See appendix referred to
in second paragraph of
this letter

With letter of
P.W. & Co. to
Mr. Chesterman
dated 11/5/52

APPENDIX REGARDING SPECIFIC ACCOUNTING
FUNCTIONS AND ACTIVITIES

Comments in this appendix deal with possible improvements in methods within the existing framework of the Commonwealth's fiscal organization.

A simplified method of accounting for revenues:

The Commonwealth's problem of record-keeping, insofar as revenues are concerned, is primarily a problem of the simple accumulation of data within a relatively stable pattern of revenue-code classifications. There is no necessity for sorting and re-sorting the data once they have been recorded.

This type of record-keeping problem lends itself to what is known as the Peg-Board Strip Method or the Unit Analysis Strip Method.

In its simplest form a peg-board strip is a single sheet containing one list of identified amounts added into a total. In the case of accounting for the Commonwealth's revenues these amounts might be the total of any day's collections in the various fine, fee, license and tax categories added into total collections for the day. The peg-board strip is punched at the top for filing in a ring binder. The punched holes, the columnar rulings and the lines on the strip are all in perfect register so that when filed in the ring binder, the strips will overlap to show only the money columns. Each amount on any strip will be in alignment with its counterpart on any other strip in the binder.

Thus in a binder for any given department in any given month there might be one strip for each of the 25 business days in the month. These could be cross added and the totals entered on a summary strip which would then contain in one simple list, a classified record of the revenue collections for that department for the entire month.

The monthly strip for each department could then be filed in another ring binder with the corresponding strip for each other department. Here the 33 could be cross added into a summary strip which would then report the month's revenue collected by the Commonwealth as a whole.

The 24 summaries so prepared could be filed in a binder and cross added into revenue collections for the entire Commonwealth for the entire biennium.

The system eliminates all transcription work and so eliminates possibility of transcription errors and need for transcription auditing. Since the preparation of each summary strip is arithmetically a self-balancing process, the possibility of error in the accumulation of the data is reduced to a minimum.

If this system were adapted to the needs of the Commonwealth, a peg-board strip would be created each day by each department which collects

finances, fees, licenses, other revenues, expense recoveries or any other cash remittances. This strip would be transmitted to the Treasury Department daily, accompanied by the cash and other collection items which would equal the total recorded on the strip. Each strip would be accompanied also by a carbon copy of the receipts given to the persons from whom the remittances were accepted. It can be seen that the record created at the point of receipt of the cash would then be not only the original record of the receipt of revenue but also the final record.

If the method could be adapted to the revenue structure of the Commonwealth, and to the structure of other collections which the various departments make from time to time, an inestimable amount of posting and transcribing could be eliminated. This would also mean the elimination of a very great amount of effort in cross-checking and detailed auditing. This possibility should be investigated further.

Centralized control over payroll accounting
and associated matters:

At the present time the payrolls of the Commonwealth are prepared on a decentralized basis. Each department prepares its own regular payroll, and requisitions its disbursement in much the same manner as it requisitions the payment of other costs and expenses. Between regular payrolls the departments make whatever requests are necessary for the disbursement of such supplemental wage and salary items as overtime payments, rate-increase payments for interim periods, and withholding tax adjustments.

Under the present procedures, there are certain activities associated with the administration of payrolls which are conducted on a centralized basis. All payroll checks are written in the Treasury Department. All payrolls, both regular and supplemental, are audited in complete detail before payment by the Bureau of Disbursements in the Auditor General's office; this is a full-time job for three people. All payroll changes are processed through the Governor's office and through the Personnel Department in the Auditor General's office.

The individual employee earnings records; the attendance, leave, and absence records; and the records of retirement-fund and war-bond deductions are maintained in the several departments. Some of these are in Harrisburg and some are in district and county offices. Although the Bureau of the Budget in the Governor's office has technical jurisdiction, record-keeping methods employed in the departments, both for the preparation of those accounts and for the preparation of the payroll requisitions, have been designed for the most part by departmental personnel. They vary considerably. The Department of Property and Supplies has a punched-card accounting system, some of the others employ another type of machine, and still others do all their work manually and with typewriters. The Highway Department prepares its payrolls manually, although it uses a punched-card installation on other accounting and reporting assignments.

The Commonwealth employs between fifty to sixty thousand people. Many large business enterprises have found that for a payroll of this size it is not only feasible, but also economical to use a centralized and highly mechanized system. Such a system permits most if not all of the associated record-keeping work to be done as the mechanical by-product of

the writing of payroll checks. In a highly developed punch-card system the card, which may also be the check, may be coded so that it can produce mechanically the individual employee earnings record, the periodic report to the Federal Government with respect to withholding taxes, the annual reports to the Federal Government on Form W-2, a record of retirement-fund deductions, a record of war-bond deductions, a payroll listing, a payroll analysis which classified the charges into as many departmental breakdowns or other cost groups as are desired, and finally, a reconciliation of the payroll bank account.

By reason of the extreme necessity for timely payment, the payroll work has already been dissociated from all of the other expenditure accounting in the Commonwealth. For this reason, and because certain of the key processes are already bottlenecked through central points, it seems possible to recommend a project of payroll centralization without materially disturbing the operating or accounting routines in any department. If this could be done successfully, it would produce a substantial saving in costs and a substantial improvement in the extent to which the payroll charges may be classified for accounting-statement and budgeting purposes.

Accounting for contributions to the retirement fund:

The preceding section of these notes discusses the possibility that the Commonwealth could bring its entire accounting for payrolls into a single central point. Among other things that discussion points out that the accounting for employee contributions under the State Employees' Retirement System could be handled as an adjunct of payroll accounting.

Under the Retirement System the Commonwealth also makes contributions, and it pays interest on the accumulated funds standing to the credit of each employee. These are essentially additional wage and salary credits. If the payroll accounting is centralized they should probably also be worked into the centralized procedures. In addition to its other advantages, a mechanical accounting system might be capable of producing interest calculations by automatic or semi-automatic means.

In passing it should be observed that the Commonwealth's accumulated liability for retirement-fund contributions and interest is now very large, probably exceeding \$25,000,000. This liability is not recognized in the biennial budget structure unless a cash payment is contemplated in any given period. Apparently the only accounting record which reports this liability is the record maintained by the retirement fund. In the case of the fund, the amount in question represents an asset and not an obligation.

Mechanized check writing and bank reconciliation:

At the present time all expenditures of the deposited funds of the Commonwealth are made on checks written in a single central unit in the Treasury Department. The Department of Public Assistance issues drafts through its district offices, and certain of the departments are authorized to write checks against what are known as "advancements", but so far as the present accounting for public funds is concerned, these expenditures are deemed to have taken place when checks are written in the Treasury Department either to pick up the drafts or to create the so-called "advancements". For practical purposes the latter may be considered to be about the same as imprest petty cash funds.

The Commonwealth's checks are written in three ways. Some are prepared on typewriters and then run through two machines. The first machine enters the date and the Auditor General's warrant number, and the second affixes the Treasurer's signature in facsimile. A second type of check is addressed to the payee on the typewriter and is then run through a bookkeeping machine which enters the amount, the date, the warrant number and the facsimile signature. A third type of check is produced by a method which is identical with the second described in this paragraph except that the payee's name is entered by addressograph rather than by typewriter. Each of the three processes produces both the checks and the check register sheets, the latter being in the form of carbon copies of the checks, some six or seven checks to the sheet. This makes a very bulky record, awkward to handle and costly to store. The Treasury writes about 9,500 checks each day at the present time.

All checks for more than \$500 must be signed manually, a requirement which makes it necessary for these checks to be given special treatment whenever they come along in any one of the three processes described above.

In order to speed up the check-writing processes, typing errors or errors from faulty punching of the keys on the bookkeeping machine are not corrected. As errors are observed, the erroneous check is voided and a new check is written on the next blank in the numerical sequence. The volume of voided checks tends to be large. The Treasury Department pulls these all out of sequence before passing the finished checks back to the various departments for entry in the accounts and mailing to the payees. The check-register sheets and the voided checks are sent to a separate unit in the Treasury Department's office for reconciliation of bank accounts, binding into book form and filing. Among other things, this unit sorts the voided checks back into sequence and affixes them to the register sheets.

The bank reconciliation process is performed entirely by hand. At the time of our review of this procedure (it was made on August 9, 1949) the reconciliation work was four months behind on some accounts (we didn't check them all), and the work of binding the check-register sheets for final filing was some three hundred volumes behind since the binders were not available. The binding work is done by hand.

In another section of these notes we discuss the feasibility of mechanizing the accounting for payrolls. That section mentions the possibility that the mechanization could take the form of a punched-card method and that if this were done, the job of bank reconciliation could be done by machine.

If all of the Commonwealth's checks were written on punched cards then all of the bank reconciliation work could be done mechanically, and a great deal of laborious manual sorting and comparing could be eliminated.

The employment of punched-card methods in the writing of checks other than payroll checks could also be utilized as the vehicle for making a complete distribution of expenditures according to departments and as many other cost classifications as were found desirable. Moreover, it could be used as the means of preparing departmental operating statements for use by the various secretaries in month-to-month control over their activities.

Punched-card accounting installations:

The Commonwealth now makes use of punched-card accounting installations in a number of its departments. The Department of Property and Supplies has one type on which it prepares its payroll among other things. The Department of Highways uses another type of equipment on which it prepares cost distributions among other things. We understand that the Department of Public Assistance will presently have an installation for certain of its accounting needs.

As the outgrowth of the Commission's survey it is possible that certain of the accounting functions of the Commonwealth will be reorganized in such a way as to make use of punched-card applications on a uniform basis serving certain needs of all departments through a centralized organization.

It appears desirable that a subproject in the survey be undertaken to make inquiries into all of the punched-card installations now in use so that the equipment now rented by the Commonwealth and the skilled supervisors now in the Commonwealth's employ may be availed of to the greatest extent possible.

To the extent that accounting improvements attempted are the product of the Commonwealth's own employees, who have been living with the present system and who know the problems intimately, the better are the prospects for successful accomplishment.

Auditing of departmental accounts:

All of the expenditure pre-auditing work undertaken by the Auditor General's Department is handled in the Bureau of Disbursements. Other bureaus of this Department are responsible for the work which, for contrast, is known as "post-auditing" work. Our preliminary survey did not cover all of these bureaus, but a discussion with the Director of Departmental Audits, indicated that the principal problems are the same in the several bureaus.

Either by tradition or by an excessively literal interpretation of the term "post-audit", all auditing activities of the Bureau of Departmental Audits are undertaken after the close of the fiscal year or other period to which they refer. The bureau's auditors visit the departments on a surprise basis, and they make an examination of cash on hand at the date of the visit, but having completed this, they turn their full attention to the accounting records for past periods. Very little attention is given to the observation of current accounting and operating procedures, and the bureau has seldom participated in the distribution of payroll checks or made similar on-the-spot investigations or tests of the system of internal control.

By far the greatest portion of the time of the bureau's auditors on any engagement is spent in transcription work. They make long and excessively detailed lists of revenue collections and cash expenditures all of which have previously been listed in detail in a number of places in the permanent records of the Commonwealth. This practice may stem from the fact that departmental audits were made many years ago by a public accounting firm. Because the firm did not have continuing access to the Commonwealth's records they found it necessary to transcribe certain detailed information

for their working papers, and this practice persisted after the Commonwealth undertook to do its own auditing. The Director made the offhand estimate that some 70 percent of the time of his staff is spent in work of this type.

Some portion of the so-called "post-audit" work is an out-and-out duplication of the work done in the pre-auditing of expenditures, and some portion of it is a duplication of the original double-checking of revenue collections.

The Director of Departmental Audits believes in concentrating on the auditing of revenues which should have been but might not have been collected or turned in. He is able to cite instances in which he or his men have found cash collections and checks which had been held by the departments for long periods pending the clarification of some circumstance or other. As a general rule, however, the people available for staff positions in the auditing bureaus are completely inexperienced and not capable of performing other than the most routine of mechanical checks. The bureaus cannot expect that real judgment will be brought to bear in their efforts in the field.

There seems to be little if any coordination between the several auditing bureaus. Each bureau chief has to work out his own program and there is no exchange of experience through staff meetings or internal bulletins.

Because of their special requirements, some of the other Commonwealth departments maintain staffs of auditors who work independently of the Auditor General's office. The most important of these is the Department of Public Assistance which carries a staff to inquire into the activities of the department's case-workers and other "visitors". Another group exists in the liquid fuels tax unit in the Motor Vehicle Department.

The Auditor General's office has a bureau concerned exclusively with the auditing of public assistance payments and the work of this unit necessarily duplicates that of the auditors employed by the Public Assistance Department. It is our understanding, however, that the Auditor General's Public Assistance Bureau can justify its activities on the strength of cash recoveries made through its disclosures.

On the basis of our preliminary survey, it seems that a considerable portion of the time spent on "post-audit" work is ineffective. The Director of Departmental Audits feels that it would be advantageous to him if he could employ half the number of men now on his staff at the same aggregate of salaries now paid. He feels that that authority would enable him to employ auditors capable of exercising judgment and that a considerable improvement in the work could be brought about in this way. Undoubtedly, there is something in what he says.

It would probably be useful also if the entire auditing function in the Commonwealth, other than the pre-audit of expenditures, were made the responsibility of a single capable official selected solely on the basis of competence. It would be even more useful if the entire auditing personnel could be so selected.

LAVENTHOL, KREKSTEIN & CO.
Certified Public Accountants
1528 WALNUT STREET
PHILADELPHIA 2

Mr. Francis J. Chesterman, Chairman
State Government Survey Committee
Harrisburg, Pennsylvania

November 5, 1952

Dear Sir:

Department of Revenue
Bureau of Corporation Taxes

We have reviewed the report which we made in 1950 to the Joint State Government Commission relative to our survey of the accounting system of the Department of Revenue. In this letter we summarize the more important comments in that report relating to the Bureau of Corporation Taxes of that Department, particularly those changes which might be affected without new legislation. Time consuming studies would be necessary before we could express an opinion as to what changes could be made without new legislation, and to perfect in detail any recommended system changes.

The present ledger system for corporation taxes is a relic of the assessment and collection procedures that existed prior to 1936 when the self-assessing system of collecting corporation taxes superseded the previous method of assessment and collection. However, no revisions were made in the accounting system to keep pace with this development. Such changes are now past due.

The Department of Revenue uses IBM punch card equipment for posting to the ledger sheets which are maintained for each corporate taxpayer. However, this equipment is not being utilized to the fullest possible extent. Since we doubt whether such ledger accounts are needed, we recommend a study to determine whether it is necessary to maintain such accounts. If it is found that such accounts are necessary, the punch card system could be redesigned and the procedures revised along the following lines:

- 1) The Department should be required to maintain control accounts and periodically take trial balances to test the accuracy of the accounts. Such controls are not maintained at the present time.
- 2) There should be separate controls for credit balances reflecting taxes for which settlements have not been made. At present there is no separation of these credit balances from debit balances showing deficiencies and credit balances showing overpayments.
- 3) Credit balances representing payments made on unsettled reports should be separated according to year and tied in with the Report Receiving Section. By this method the Bureau could at all times obtain a list of unsettled reports by year, thereby establishing a follow-up for the settlement of reports.
- 4) The receipt of taxes should be tabulated according to the year to which the particular tax applies instead of as at present lumping them according to the year received.
- 5) There should be one posting to reflect a tax deficiency or overpayment of tax as a result of resettlement instead of as at present making two postings for each transaction; one to offset the original settlement, and the other to show the newly determined tax.

6) All postings to ledger sheets should be by means of the punch card equipment and manual postings now being made should be prohibited.

7) The records of the Department should at all times show the amount of taxes receivable, the year to which applicable, and the age of the tax deficiencies. Under the present system, such information would be difficult to obtain as well as time consuming.

8) Provision should be made for the accumulation of statistical data that may be needed for intelligent budget forecasts and for otherwise managing the affairs of the Department. Such information is at present lacking.

9) All unpaid taxes that have been written off should be kept under control in a suspense ledger. Such control is now lacking.

In addition to the above, the following procedural changes should be made:

1) Journal vouchers for adjusting ledger accounts should be serially numbered, carefully controlled, signed in ink, and have the approval of a responsible official. Each of these safeguards is at present lacking.

2) Certified copies of Settlements and Resettlements should be serially numbered and accounted for. At present, there is no such control.

3) The duties of the Receipts Accounting Unit pertaining to the maintenance of the ledger accounts of all corporate taxpayers should be transferred to the Bureau of Corporation Taxes, thereby centralizing the responsibility and control.

We believe that the above summary of recommendations highlights the need for revision of the accounting system and procedures in the Bureau of Corporation Taxes, Department of Revenue. There are also other areas in the Department of Revenue in which improvement is desirable, but since this Bureau is responsible for the largest portion of general fund revenues, we have selected this area in order to illustrate our point.

Yours very truly,

Laventhol Krekstein & Co.

Laventhol, Krekstein & Co.

TURNER, CROOK AND ZEBLEY

CERTIFIED PUBLIC ACCOUNTANTS

1622 Chestnut Street
Philadelphia 2, Pa.

Mr. Francis J. Chesterman, Chairman
State Government Survey Committee
Harrisburg, Pennsylvania

November 5, 1952

Dear Sir:

Treasury Department

We submit in this letter a summary of our report on the survey made by us of the functions and operations of the Treasury Department of the Commonwealth of Pennsylvania, filed with the Pennsylvania Institute of Certified Public Accountants and the Joint State Government Commission on November 21, 1949, entitled "Report on Survey of Operating Procedures and Accounting System of the Treasury Department, Commonwealth of Pennsylvania."

The scope of the survey included not only a review of the departmental functions and operations of each bureau within the Treasury Department, but also considered the relation of the Treasury Department to other Departments of the Commonwealth.

Our conclusions and recommendations embraced a re-organization program that would create a central accounting office, provide more effective budget control, confine the functions of the Auditor General's Department for the most part to what we accountants call post auditing, create a financial policy board and return to the Treasury Department its basic function of receiving and disbursing funds and acting as a custodial agent for all Commonwealth funds.

The complete program could not be placed in operation without some statutory change. This summary is intended to place emphasis on matters related to those functions and procedures of the Treasury Department which may be improved without resort to legislative action.

The Treasury Department is an administrative department the main function of which is to act as a disbursing agent for each of the Funds of the Commonwealth of Pennsylvania. Its principal operations, therefore, consist of (1) receiving and holding the revenues and other receipts of the Commonwealth in various selected and approved depositories, (2) making disbursements from these Funds upon order of the department involved after approval by the Department of Auditor General, and (3) maintaining adequate and accurate accounting records of the cash balances of the respective Funds. In addition, the Treasury Department, in order to exercise more effective control of all departmental expenditures, maintains complete records of all legislative appropriations and budgetary allocations and of the disbursements made thereagainst.

Funds to enable this department to perform its duties are made available by the legislature on a biennial basis. The cost of the administration of this office is limited by the total amount so

appropriated but there is no requirement that expenditures be kept within predetermined object classifications so long as the total appropriation is not exceeded. The use of the amount appropriated, as to object classification, rests with the discretion of the department subject to the approval of the Auditor General.

Each bureau within the Treasury Department maintains complete records of cash balances and appropriation balances which in some instances are duplicates of records maintained by other bureaus within the Treasury Department, or other Departments of the Commonwealth. There are some cases where there is a duplication of records within an individual bureau.

As repetition and duplication of effort was apparent, further study and analysis disclosed that certain outside factors are contributory to existing conditions and must be given consideration in any discussion of present administrative policies and procedures.

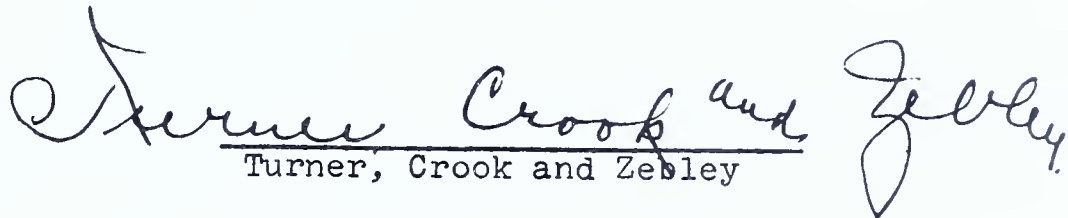
Analysis of the separate bureau procedures and operations within the Treasury Department indicates that certain basic changes merit attention. Consideration should be given the following:

1. A central financial control should be established within the Treasury Department.
This unit would maintain control records of all accounts affecting the operation of the Treasury Department, using summary information compiled by the various operating units to develop these records.
2. The elimination of all unnecessary daily summaries where the same information is developed in another bureau.
Such daily reports as needed could be prepared by the control unit, thus the individual bureau would only summarize its daily transactions.
3. Basic information should be developed at its logical starting point and once prepared should be used in as many cases as deemed necessary but the accumulation and recording of the same information in another bureau should be eliminated.
4. Wherever possible mechanized equipment should be utilized to give better control and greater efficiency.
5. Design and preparation of original documents should be made in such a manner as to utilize procedures, required by law, of other departments to the utmost extent.

If a plan of reorganization of the Treasury Department is to be adopted, to effect economies and the more efficient use of personnel, a detailed evaluation of each bureau and each job will have to be made to determine what changes in procedure and possible further mechanization will be necessary to achieve these ends.

If we can be of further assistance we would be pleased to discuss the problems in greater detail with the Survey Committee. We again refer to our "Report on Survey of Operating Procedures and Accounting System of the Treasury Department, Commonwealth of Pennsylvania" submitted by us, November 21, 1949, and especially to pages 24 to 29 thereof which covers the above matters at greater length. Please be assured of our willingness to cooperate in any way possible in effecting the ultimate goals of your Committee.

Yours very truly,


Turner, Crook and Zesley

